

Message Text

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ACTION NEA-10

INFO OCT-01 AF-10 ARA-10 EUR-12 EA-07 ISO-00 NEAE-00
SS-15 SSO-00 EB-07 INR-07 SP-02 NSC-05 TRSE-00
/086 W

-----029539 211734Z /47 S

P R 211557Z JUN 77

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 5331

INFO AMEMBASSY ALGIERS

AMEMBASSY BONN

AMEMBASSY CAIRO

AMEMBASSY CARACAS

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY MANAMA

AMEMBASSY PARIS

AMEMBASSY QUITO

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY TRIPOLI

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY VIENNA

AMEMBASSY ABU DHABI

USINT BAGHDAD

AMCONSUL DHAHRAN

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 10222

E.O. 11652: GDS

TAGS: ENRG, TC

SUBJECT: OPEC OIL PRICE COMPROMISE

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REF: ABU DHABI 1827

1. SUMMARY. BRITISH OIL INDUSTRY AND GOVERNMENT SOURCES
NOW EXPECT THE SAUDIS AND UAE TO INCREASE THEIR OIL
PRICES FROM THE 5 TO 10 PERCENT LEVEL AS OF EARLY JULY
BUT DO NOT BELIEVE A PUBLICLY ANNOUNCED PRICE FREEZE IS

IN THE OFFING. THEY SUGGEST AN INFORMAL UNDERSTANDING AMONG THE OPEC STATES ON MAINTAINING THE NEW UNIFIED PRICE LEVEL FOR SIX MONTHS OR POSSIBLY ONE YEAR COULD RESULT. SIMILARLY, IT IS THOUGHT UNPUBLICIZED ASSURANCES MAY BE GIVEN BY THE SAUDIS TO LIMIT PRODUCTION TO ABOUT 9 M/BLD. A LOCAL US INDUSTRY SOURCE DOUBTS THAT A FORMAL OPEC AGREEMENT WILL BE REACHED IN JULY. END SUMMARY.

2. SHELL INTERNATIONAL HAD ANTICIPATED AS RECENTLY AS A WEEK AGO THAT THE SAUDIS AND UAE WOULD ADOPT A PHASED INCREASE TO 10 PERCENT, RAISED TO ABOUT 8 PERCENT IN JULY WITH A SUBSEQUENT INCREASE IN THE AUTUMN BRINGING THEM UP TO THE 10 PERCENT FIGURE. SHELL NOW BELIEVES, HOWEVER, THE SAUDIS AND UAE WILL GO TO 10 PERCENT AS OF JULY 1 OR JULY 12. PROSPECTS FOR A PRICE FREEZE ARE CONSIDERED MUCH MORE UNCERTAIN. SHELL CURRENTLY JUDGES THAT CHANCES ARE GOOD THAT THE NEW UNIFIED PRICE LEVEL WILL STICK FOR ONE YEAR UNTIL JULY 1978 ON THE BASIS OF INFORMAL UNDERSTANDINGS REACHED BETWEEN INDIVIDUAL OPEC COUNTRIES. SIMILARLY SHELL ANTICIPATES THAT THE SAUDIS MAY QUIETLY INFORM FELLOW OPEC STATES, ESPECIALLY IRAN, THAT THEY INTEND TO LIMIT PRODUCTION TO ABOUT 9 M/BLD, OR POSSIBLY SLIGHTLY HIGHER, TO PROVIDE A CUSHION FOR ADDITIONAL CONTRACTS.

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3. SHELL FORESEES THE SAUDIS EXERCISING GREATER CAUTION IN THE FUTURE ABOUT MAKING SPECIFIC PUBLIC COMMITMENTS ON PRICES AND PRODUCTION IN ORDER "NOT TO GET OUT ON ANOTHER LIMB". SHELL SEES THE SAUDIS AS WANTING TO HOLD OPEN THEIR OPTIONS IN ORDER TO INCREASE THE SAG'S FLEXIBILITY TO REVIEW AND REVISE PRICING AND PRODUCTION DECISIONS.

4. FCO ENERGY DEPARTMENT SUGGESTS A PRICE FREEZE IS MOST

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INFO OCT-01 AF-10 ARA-10 EUR-12 EA-07 ISO-00 NEAE-00
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P R 211557Z JUN 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 5332
INFO AMEMBASSY ALGIERS
AMEMBASSY BONN
AMEMBASSY CAIRO
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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 10222

LIKELY TO LAST UNTIL THE END OF 1977 WITH A "SPORTING
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CHANCE" THAT IT WILL BE EXTENDED AN ADDITIONAL SIX
MONTHS. FCO ACKNOWLEDGES, HOWEVER, THIS IS AT BEST A
GUESSING GAME SINCE IT HAS RECEIVED ABSOLUTELY NO CON-
FIRMATION FROM POSTS IN THE REGION.

5. FCO HAS ASKED WHETHER THE US CONTEMPLATES ANOTHER
SERIES OF DEMARCHES ON PRICING PRIOR TO THE OPEC
MINISTERIAL IN STOCKHOLM. THE UK DOUBTS THAT A PRICE

"CAMPAIGN" WILL SERVE ANY USEFUL PURPOSE THIS TIME
AROUND.

6. FCO ALSO RAISED THE QUESTION WHETHER ANY ENGAGEMENT
HAD BEEN SOUGHT OR GIVEN RESPECTING THE LEVEL OF SAUDI
PRODUCTION DURING THE SECOND HALF OF 1977. FCO NOTES
THAT IF THE SAUDI PRODUCTION WERE TO RETURN TO 8.5 M/BLD,
THIS WOULD TEND TO CREATE THE CONDITIONS UNDER WHICH A
HIGHER INCREASE MIGHT RESULT AT THE END OF 1977.

7. LOCAL MOBIL SOURCE IS STILL SOMEWHAT DUBIOUS ABOUT
FORMAL AGREEMENT ON PRICES BEING REACHED IN JULY, AL-
THOUGH THE SAUDIS AND UAE PROBABLY WILL COME UP MOST IF
NOT ALL THE WAY TO 10 PERCENT. HE ARGUES THAT THE
SAUDIS WILL NOTE THEIR DISAPPOINTMENT WITH THE RESULTS
OF CIEC, AS WELL AS DEDICATION TO OPEC SOLIDARITY AS THE
PUBLIC RATIONALE FOR THEIR ACTION. AS A PRACTICAL
MATTER, HOWEVER, THE SAUDIS JUST HAVE NOT BEEN AS
SUCCESSFUL AS THEY EXPECTED IN INFLUENCING OIL MARKET
PRICES BECAUSE OF PREVIOUS HIGH OIL STOCKS ACCUMULATION,
UNDERLIFTINGS DUE TO POOR WEATHER, FIRES, ETC.

BREWSTER

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Message Attributes

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